MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2017/2018

BAC2664 – AUDITING

(All sections / Groups)

21 OCTOBER 2017
9.00 a.m – 12.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 5 pages excluding cover page with 5 Questions only.
2. Attempt all **FIVE** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

a) The audit report is the final outcome in the entire audit process. Describe the responsibilities of the company's directors as stated in the Auditors' Report.

(4 marks)

b) Describe the differences between internal and external auditors.

(2 marks)

c) The following paragraph was extracted from an Auditors' Report:

"Without qualifying our opinion...the Company incurred a net loss of RM...and the company current liabilities exceeded its total assets by RM...These factors as set forth in Note...raise substantial doubt that the company will be able to continue as a going concern."

i. Explain the type of audit report issued based on the above paragraph.

(4 marks)

ii. State two (2) indications to be considered by the auditors when evaluating the going concern of a client company. (2 marks)

d) For each of the following independent cases, determine

i) the type of audit opinion to be issued, and

ii) explain the reasons for your answer in (i) above.

Case 1

Champion Sdn Bhd has excluded certain lease obligation from the non-current assets and liabilities in the accompanying financial statements. However, in the auditor's opinion, the item is significant and therefore should be recognised as finance lease in order to conform to the approved accounting standards.

(4 marks)

Continued...

Case 2

The auditors were unable to observe all physical inventory counts and confirm the account balances of major accounts payable. As such, the auditors were unable to obtain all the information and explanation they considered necessary to satisfy themselves on the existence of inventories and accounts payable.

(4 marks)

(Total: 20 marks)

QUESTION 2

Auditors are given certain rights under Section 174 of the Companies Act 1965. This is to assist them in performing their audit and to gather sufficient appropriate audit evidence.

Required:

a) Explain the importance of obtaining sufficient appropriate audit evidence.

(2 marks)

b) Explain briefly auditor's rights in obtaining audit evidence under Section 174 of the Companies Act 1965. (3 marks)

c) Explain three (3) factors that may affect the reliability of audit evidence.

(6 marks)

d) Distinguish between internal documentation and external documentation as a form of audit evidence. (6 marks)

e) For each of the following audit procedures, identify the type of audit evidence that is gathered.

i. Request a letter from supplier to verify the client's inventory level

ii. Recalculation of the depreciation amount

iii. Compare liquidity position of last year and the current year

(3 marks)

(Total: 20 marks)

Continued...

QUESTION 3

Risk and materiality are fundamental concepts in planning the audit and designing of the audit approach. The auditors should plan their work in order to perform the audit in an effective manner. Audit planning would normally start after an auditor accepts his engagement.

Required:

a) Explain briefly three (3) benefits derived from audit planning. (3 marks)

b) Explain the importance of an audit programme. (3 marks)

c) Audit risk comprises of control risk, inherent risk and detection risk.

i. Discuss the inter-relationship among the three components of audit risk. (3 marks)

ii. Discuss the effect of auditor's assessment of detection risks on the extent of substantive procedures to be performed. (3 marks)

d) Discuss three (3) main steps in planning for an audit. (6 marks)

e) Explain the importance of an engagement letter in an audit engagement. (2 marks)

(Total: 20 marks)

Continued...

QUESTION 4

An audit report prepared by Eunice and Yang, Certified Public Accountant (CPA), is provided below. The audit for the year ended 31 December 2016 was completed on 1 March 2017, and the report was issued to Jahan Sdn. Bhd, a private company, on 13 March 2017.

> We have examined the accompanying financial statements of Jahan Sdn. Bhd. as of 31 December 2016. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these statements based on our audit.
>
> We conducted our audit in accordance with auditing standards generally accepted in Malaysia. Those principles require that we plan and perform the audit to provide reasonable assurance about whether the financial statements are free of misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. We believe that our audit provides a reasonable basis for our opinion.
>
> In our opinion, except for the effects of not capitalizing certain lease obligations that should be capitalized in order to conform with generally accepted accounting principles, the financial statements referred to above present accurately the financial position of Jahan Sdn. Bhd as of 31 December 2016, in conformity with MFRS.
>
> Eunice and Yang, CPAs
>
> 13 March 2017

Required:

a) Based on the components of unqualified audit report, discuss if the above audit report covers all the components of an unqualified audit report.

(10 marks)

b) Briefly explain each of the management assertion above related to account balances at period end in respect of the following:

i. Existence, ii. Completeness, iii. Valuation & allocation, iv. Rights & obligations

(4 marks)

c) Discuss three reasons why auditors are responsible for "reasonable" but not "absolute" assurance.

(6 marks)

(Total: 20 marks)

Continued...

QUESTION 5

Management is responsible for establishing and maintaining the entity's internal controls. For public companies, management is also required to publicly report on the operating effectiveness of those controls. In contrast, the auditor's responsibilities include understanding and testing internal control over financial reporting. For public company clients, the auditor is also required to issue an audit report on management's assessment of its internal controls, including the auditor's opinion on the operating effectiveness of those controls.

Required:

a) Describe each of the three objectives of effective internal control.

(6 marks)

b) List the four phases in the auditor's process of understanding internal control and assessing control risk for a public company.

(4 marks)

c) Discuss the five components of internal control framework set out in the Malaysian auditing standard.

(10 marks)

(Total: 20 marks)

End of Paper